BRITISH FINANCE AND THE EUROPEAN WAR

By W. M. J. Williams,

Author of *The King's Revenue*, London, England.

To appreciate the effect of the European War, 1914, on the public finance of Great Britain and Ireland it is necessary to look first of all at the provision made for peace time just before the conflagration burst out. That may be seen from the schedule of the Appropriation Act, 1914, passed on the seventh of August, three days after the declaration of war:

TABLE A

	Sums not exceeding	
	Supply grants	Appropriations in aid
Supplementary Votes for 1913-14. (Navy, Army and Civil Services)	£2,792,053	£212,040
1914-15		
Navy	51,550,000	2,023,261
Army	28,845,000	3,668,200
Army (Ordnance Factories)	40,000	3,337,000
	80,435,000	9,028,461
Civil Services		
Class I. Public Works and Buildings	3,744,769	148,524
Class II. Salaries of Civil Departments	4,723,433	1,125,698
Class III. Law and Justice	4,769,234	872,241
Class IV. Education, Science and Art	20,559,191	28,515
Class V. Foreign and Colonial Services	1,866,977	123,717
Class VI. Non-effective Services	1,091,346	7,900
Class VII. Old-age Pensions, Insurance, etc.	22,129,750	248,500
	58,884,640	2,555,095
Revenue Departments		
P. O., Customs and Excise, etc	30,967,915	961,098
Naval and Military Operations, etc., Vote of Credit	100,000,000	
Grand Total	£273,079,608	12,756,694

To this sum must be added £36,636,000, for the Consolidated Fund Services. The sums included in the Appropriation Act table are those for which a vote of Parliament is required annually by way of "supply;" the Consolidated Fund Services are those met by the authority of permanent Acts; and in this case of the £36,636,000, some £23,500,000 are for the service of the annual debt, and £9,885,-000 payments in aid of local taxation. The remainder of that sum is made up by grants to members of the Royal Family, the salaries of the speaker and judges, and £1,545,000, to the road board. Already, when Parliament was prorogued for 1914 in August, the House of Commons had voted £309,715,608 for the service of the year, a total which included the £100,000,000 on account of the war, and the £36,636,000 for Consolidated Fund services, and the supply services shown in the above table. The £12,756,694, too, under the head of "Appropriations in Aid," was made up of various sums already in the hands of the various departments, which for some years now they have not been required to repay into the treasury at the end of the year, and then the House of Commons votes the estimates at a *net* figure, *i.e.*, less the appropriations-in-aid, which thus get the sanction of the House. Experience leads us to question whether that is a wise practice. For comparison this sum of the "Appropriations in Aid" must be omitted, but it is important to remember that the departments have that sum at command.

This table from the Appropriation Act, 1914, is instructive, as it affords the latest instance of the manner in which the House of Commons endorses all the various "votes" already passed, and gives them at once legal form with authority to the administration to spend within a limit. In this case that limit included a sum of £100 millions unappropriated, save that it was to carry on war, and to this sum we shall recur later in this paper. To afford a view of current British taxation and expenditure apart from war, there now follows the final balance sheet, as proposed and finally accepted in the House of Commons, from June 23 to August.

As a preliminary to what follows a few brief notes on table B are necessary. Beginning with *expenditure* as determining all else in the national outlay and financial measures, we are struck with the high total of expenditures in peace time; and of course it is well known that expenditures have increased rapidly during recent years. Adopting the year 1905–1906 as a standard of comparison, it was the last year for

Table B.—Giving Final Balance Sheet, 1914–1915, as Proposed by the Chancellor of the Exchequer

Estimated Revenue, 1914–1915.

Customs		£35,350,000
Excise		39,650,000
Estate, &c. Duties as in Table V	£28,000,000	
Add:—Proposed revision of duties (*net*)	770,000	
		28,770,000
Stamps		9,900,000
Land Tax		700,000
House Duty		2,000,000
Income Tax as in Table V	£45,250,000	
Add:—Proposed increase of *d.* in the £ and other alterations (*net*)	2,871,000	
		48,121,000
Super-Tax as in Table V	3,300,000	
Add:—Proposed alteration of scale	2,500,000	
		5,800,000
Land Value Duties		725,000
Total Receipts from Taxes		£171,366,000
Postal Service		21,750,000
Telegraph Service		3,100,000
Telephone Service		6,900,000
Crown Lands		530,000
Receipts from Suez Canal Shares and sundry Loans		1,370,000
Miscellaneous		2,130,000
Total Receipts from Non-Tax Revenue		£35,780,000
Total Revenue		£207,146,000

Estimated Expenditure, 1914–15.

I. Consolidated Fund Services		
National Debt Services:		
Interest and Management		£16,741,000
Repayment of Capital	£7,759,000	
Deduct:—Proposed reduction of Sinking Fund	1,000,000	
		6,759,000
		23,500,000
Road Improvement Fund		1,545,000
Payments to Local Taxation Accounts, &c		9,885,000
Other Consolidated Fund Services		1,706,000
Total Consolidated Fund Services		£36,636,000
II. Supply Services		
Army (including Ordnance Factories)		28,885,000
Navy		51,550,000
Civil Services as in Table IV	£57,066,000	
Add:—Insurance	1,000,000	
Education	586,000	
Public Health and Local Taxation	250,000	
		58,902,000
Customs and Excise, and Inland Revenue Departments, as in Table IV	4,696,000	
Add:—Valuation	80,000	
Collection of proposed additional duties	45,000	
		4,821,000
Post Office Services as in Table IV	26,152,000	
Add:—Proposed increase to low-wage employees	75,000	
		26,227,000
Total Supply Services		£170,385,000
Total Expenditure		£207,021,000
Balance		125,000
Total		£207,146,000

Borrowings to meet Expenditure chargeable against Capital........ £5,265,000

Expenditure chargeable against Capital........ £5,265,000

Treasury Chambers
23 June, 1914

E. S. Montagu.

which the Balfour Government was responsible in part, we find that expenditure chargeable against revenue had risen from £150.4 millions to £197.4 millions in 1913–1914, and table B shows that the estimate for 1914–1915 was no less than £207.14 millions. Roughly we get an increase of expenditure since 1905–1906 of £57 millions a year. The total spent on the Consolidated Fund services was less by over £4 millions. That is accounted for principally by the reduction of the sum appropriated to the service of the national debt from £28 to £23½ millions; but on the other hand a grant of £1,394 millions toward the road improvement fund appears as a new charge, according to the budget of 1909–1910; and other changes of a minor character result in this section of the expenditure being less by that £4 millions. On the other heads increase is the order throughout. The cost of the army is slightly higher than that for 1905–1906, though that was much smaller in 1908–1909, and has gone up since. The navy was at £33.3 millions in 1905–1906, but was as low as £31.1 in 1907–1908; it was now placed at £51.55 millions before the war. The civil services were at £28.4 millions in 1905–1906; they are now put at £58.9 millions; but in this case "civil services" must be understood as civil purposes, covering the cost of the civil departments (other than the revenue) as well as grants-in-aid of civil objects. It will suffice to show that the cost of education went up in this interval from £16.396 millions to about £20.2 millions, and meantime new social services have been created, such as old-age pensions, labor exchanges, national insurance, etc. (health and unemployment), to which about £21 millions are now appropriated. In the "revenue" departments the post office takes the leading place, and the cost of working it has grown from £15,978 millions to £26,227 millions; but the postal services always pay their way and add a considerable free sum to the funds at the treasury. This brief summary reveals the direction in which the increased expenditure had been incurred. In the United Kingdom there is much unanimity until the means of meeting expenditure come to be considered. On the whole, though there was much party play, there was not much earnest opposition to the "social welfare" program which has added £21 millions already to annual expenditure, there was no such opposition as that to the growth of the cost of the army and the navy from £52 to £75 millions (principally on the navy) during these nine years—which arises from an unbridgeable difference in ideals apparently. This last fact should

be kept in view when we come to consider the war, and the attitude of the people toward it.

On the *revenue* side we see (table B) that of the total of £207,146 millions, only £171,366 millions were expected from taxes, the rest being drawn from postal and miscellaneous sources. The sum corresponding to the £171,366 millions from taxes was £129,776 millions in 1905–1906, disclosing a growth in revenue from taxes of £41.59 millions. If from table B we adopt the customs and excise as representing the indirect sources of revenue, while the direct sources are represented by the death duties, income-tax, stamps, etc., a very rough division, no doubt, but serviceable, we get a very instructive view of the trend of affairs during the past nine years in question, involving facts, too, which have a very important bearing upon the financing of war costs. So regarded the revenue from taxes in 1905–1906 was drawn, 54.13 per cent from indirect and 45.87 per cent from direct sources, and the revenue for 1914–1915 was planned to yield 43.75 per cent from indirect and 56.25 per cent from direct taxation. As regards these two classes of revenue sources, therefore, there has been a "right about face." This is an aspect of British public finance of immense internal importance, which has attracted attention far beyond the confines of the British Empire. Here is fought perennially the battle, not so much about the question of expenditure, but who shall bear the burden of the demands made upon the Kingdom. It will be recollected that in December, 1905, when the Balfour Government resigned, the United Kingdom was discussing the old question of a general tariff, principally on imports from other countries. The resolution in our public finance witnessed in the period 1905–1906 to 1914–1915 (and it was quite that), by which a rapidly growing expenditure was made a concomitant of a departure in taxation which sought all the money required for reforms and increased outlay from direct sources, in other words from accumulated property. That, therefore, was a direct rejection in practice of the principles of those who adopted from Mr. Chamberlain the return to a revenue based upon the taxation of imports. Equally plain it is that this fact of a departure in taxation to meet new expenditure is of first rate importance at the present critical moment.

To enter minutely into the means by which that increase of £41.59 millions in a total revenue of £171,366 millions was produced during the past nine years is quite impossible here; but some reference

to the steps taken is desirable for several reasons. The returns for postal revenue (including telegraphs and telephones), and of the incomes returned for examination by the inland revenue authorities, will suggest the source of the success, and also the justification of the means. Reference again to table B will remind us that £31.75 millions are estimated to come from the three postal services in 1914–1915, whereas only £21 millions came from those sources in 1905–1906. The gross amount of income received by the authorities in 1905–1906 was £925 millions; the amount became £1,111 millions in 1912–1913, and was larger, unquestionably, the following year. The figures respecting the death duties confirm these indications of growing financial strength, and, moreover, point to the obvious fact of the great accumulation of wealth in a small section of the population. These facts became the basis of the transference of burdens from indirect to direct taxation, and the success of the enterprise,- the receipt of revenue covering the largely increased expenditure, and affording means to pay off some £100 millions of debt also, became a justification. The theoretical and practical objections to imposing taxes on commodities were alleged also, but at the same time Mr. Asquith and Mr. Lloyd George, who have been Chancellors of the Exchequer during the interval, have declined to be parties to abolishing the few remaining taxes on necessaries, such as tea and sugar. The taxes which were imposed, on the other hand, have been significant.

The changes in taxation were such that the relief to the taxpayer may be passed with a mere reference; but the increase of expenditure was met necessarily by increases in taxation. On the indirect side (that was in 1909–1910) there was a complete reconstruction of the license duties and of the duties on spirits, beer and tobacco, making the spirit duty £14 9*s* a gallon, the beer duty 8*s* 3*d* a barrel, and tobacco duty 3*s* 8*d* a pound. On the direct side, however, during 1905–1906, 1914–1915, the death duties have been reformed more severely three times from 1908 until now, making the graduation on the total of estates, as well as on specific legacies, much more severe. The income tax, too, has been raised in two ways, *viz.*, by means of the poundage, which is now at 1*s* 2*d*, and by a super-tax on incomes above £2,500, with many devices attending these changes leaving both the main and the super-tax now in a highly graduated, but still in a very patchy and unsatisfactory state. Stamps, too, were made more severe in some cases; but the land value duties—increment, reversion

and unimproved land, with a mineral rights duty also—must be mentioned, but these land duties are now regarded as disappointing in yield, except the mineral rights duty, perhaps, and were fought so fiercely in 1909–1910 and later chiefly on account of the valuation of land which was provided for at the same time, though that was by no means an integral portion of the land duties. The valuation of land, now due for completion sometime during 1915, is feared really because of the great possibilities it may afford an ingenious and reforming Chancellor of the Exchequer. I have paid some attention to the result of these valiantly fought changes in British taxation during the interval in question here, and though they are substantial, in some respects even severe, yet, if equality of sacrifice be aimed at in contribution to the public expenditure, the result errs still in too great a burden placed upon the weaker and poorer citizen. The taxing of some millions of citizens must be a rough process at all times, and hard cases will occur, but the grumbling when directed at our reformed taxes is aimed at the wrong point. The mischief lies not in our taxation, which has an incidence yet making the burden in inverse ratio to the means of the taxpayer, but in our expenditure. Turn to our table II again, and we find an expenditure on the army and navy, together with the £23½ millions for the debt (almost wholly a war debt), of nearly £104 millions a year in peace time. Such a tremendous expenditure on unproductive services must be burdensome, and he who wills the policy must will the taxes, the reasonable and fair taxes to pay for it. It is impossible in this place to demonstrate that recent changes in taxation have been reasonable and fair, but it can be done, and with comparative ease.

The outbreak of war on the fourth of August, 1914, found the United Kingdom of Great Britain and Ireland still in a period of much financial prosperity. The trade of the Kingdom was not quite so elastic and prosperous as that of 1912 and 1913, but yet was at a volume and value which, compared with those of a dozen years earlier, had become the nightmare of those who would load it with a tariff burden, but was the joy of all who candidly reviewed its conquests and health. If we omit the trade in foreign and colonial goods which reached £109 millions in 1913, our over-sea trade in 1905 was £487 millions of imports and £329 millions of exports. These figures for 1913 had become: imports £659 millions, exports £525 millions. They are better understood, and afford a better test,

if we say that in 1905 imports were £11, 6*s*, 9*d* and exports £7, 13*s*, 6*d* per head of the population, but in 1913 £14, 6*s*, 5*d*, and £11, 8*s*, 3*d*, respectively. So that relatively and absolutely a great increase had been secured in British over-sea trade. Again in addition to paying for all the new social services, and for the greatly expanded navy, and for the total growth of expenditure out of current revenue, it can be shown that since 1905 the national debt had been reduced from £755 millions to £649 millions—a reduction by £106 millions to March, 1914. That brought the debt to within £21 millions of what it was at the opening of the South African war. A period of great material prosperity had been experienced in the United Kingdom since 1905; and it was into this scene of prosperity that war, with its horrors and waste, burst in August last. It is evident that the Kingdom was strong financially, but it must be observed also that at the moment Britain's ordinary engagements were at a high figure, and they involved a high rate of taxation to meet the expenditure. On the other hand, it must be admitted that with a navy at £51½ millions a year and more, peace was maintained at a war cost.

As we face the cost of war it must be recollected that even a military success is a financial defect; war devours, war destroys. Not only thousands of the best men who produced the wealth indicated by figures quoted already will be slain, or maimed, by war, but war destroys that wealth at a rate far beyond that of creation. How then shall prosperous Britain meet the cost of this war? How shall our rulers proceed "to foot the bill"?

In table A there is an item—"naval and military expenditure, £100 millions." That, so far (November 7), is the only power to spend on the war which the British government has taken. By that power it has been possible to raise a considerable sum of money, additional to non-war requirements, merely on a "vote of credit," without recourse to ultimate methods of meeting the cost. On that basis according to official statements treasury bills for £80 millions had been issued up to October 31, and altogether bills of that nature to a total of £86 millions were current at that date. That is by no means all that the British government has attempted of a financial nature since the war came upon them. There is the insurance of war risks for shipping; the purchase of a large stock of sugar, fixing the retail price; the declaration of a moratorium to the first week in November; the organization of relief; and several other things, in-

cluding the guaranteeing of sixty per cent of the sums advanced by banks on bills of exchange, and the issue of one pound and ten shilling treasury notes to save the stock of gold; but all these things, intimately connected with the cost of the war, were not measures to meet the direct cost of that war. As this paper is written, just before the House of Commons reassembles, and even before the Prime Minister's speech at the Guildhall, at Lord Mayor's banquet, on the ninth of November, we are necessarily without a hint of the specific proposals on the subject which the government will make. It is a question, indeed, whether the government will table proposals to meet the cost of the war before the new year, or whether it will ask for more power to raise money temporarily; and, looking to the advantage of maintaining the great unanimity of the country for the conduct of the war, there is much to be said for the latter course.

The cost of the war, and how it is to be met is an unavoidable subject nevertheless. When Parliament is sitting we shall hear much of it whether the government will table its proposals or not. The postponement of an unpleasant subject does not solve it, and in this case it is evident that the financing of the war involves the maintenance of commercial health, and should not be postponed long. Meantime pens are busy sketching the position created by the war, and that is likely to be the case until the government's proposals are disclosed. The fact that it is known that the treasury has been consulting at home and in America on kindred matters adds to the keen anticipation of the war budget.

In this position, however, it is open to us to regard the problem to be solved with a clearer atmosphere perhaps than when controversy may be keen regarding special points. First of all there are indications all around that all classes are impressed by a necessity to make sacrifices; the very horrors of war are brought on to many hearths, and there is a very strong consensus of opinion that the fighting is for a just cause; and that, compared, say, with the state of things at the time of the South African War, is a great advantage financially. That, too, helps in the decision first to be made about the provisions required. If the war is of general importance, in the sense that it is fought not for a day, but is crucial to the people and to the country, then the present generation of citizens alone should not be required to shoulder the cost. Such a decision is now watched closely in the United Kingdom. To make it easy to go to war is not

the desire of any responsible citizen. Turkey can afford to go to war every decade, but Turkey is also decadent, while Britain has but recently, as I have shown, made successful efforts to pay the cost of the South African War. In short, a resort to loans only on special and extraordinary occasions has become in Britain almost a guiding principle of our public finance. The immense fleet, now doing such service on the oceans, this year requiring £51½ millions, apart from war, has been paid for on the principle of "pay as we go." The advantage of that is palpable now that war has overtaken us. It will be granted that the present European War is a special and extraordinary occasion. Undertaken for our own interests indirectly but directly for the protection of Belgium and the fulfilment of obligations entered into more than two generations ago, it is obvious that objects beyond those of today are involved, the place, position and prosperity of the country may be involved now and in days to come. It is not likely, therefore, that there will be any difference of opinion that loans should be resorted to for the cost of this war.

But several questions arise at once. Shall this cost be met by loans alone? Or shall a part be met by loan, and a part by taxation? If in part both ways, what proportion by loan, and what by increased taxation? Again what kind of taxation shall be adopted for this purpose? Here unanimity will, probably, fail; but the question will not brook delay; drifting may be as dangerous as a sea mine.

We are met at once by the indefinite sum which may be incurred. Personally I am among those who look for the earlier rather than a later close of the war. It is not probable, even amid the grim resolves of nations, that the blockade of Germany, with its cumulative trials in commerce, and shortness of food, and the dire slaughter of men in tens of thousands, accompanied by a corresponding destruction of wealth, can be sustained long nor permitted to block the return of common sense, and of humanity. Passion consumes itself, and hunger will swallow patriotism. Ambition has ever led to a fall. But at best it is uncertain how long the war will last, and still more uncertain how much it will cost. As for Britain I have shown that at the time of writing the £100 millions of "credit" had been spent almost, and the government will be sure to ask for another £100 millions soon after the House meets on the eleventh of November; but how much more will be required for this work of slaughter! I have shown already that it is advisable to resort both to loans and to taxa-

tion; the former because of the indefinite liability as well as for prudence, the latter for similar reasons, but especially to connect passion with a clear responsibility for action. Still, is it not clear that the indefinite side of the cost must be subject to treatment by loans, and that the most immediate decision will be the amount to be raised by taxes?

The last issue of treasury bills for war purposes, that on November 4, was taken up readily, the market was strong, and the rate was $3\frac{3}{8}$ per cent. That brings the issues already made up to £95 millions or more. When the government may proceed to fund these bills, to turn bills into loans, is of less consequence for present purposes; but it is of much importance to note that confidence is strong and unshakable, so that it may be said with assurance that any war loan issued will be taken up with readiness, and probably at about $3\frac{1}{2}$ per cent, on an average. Our consolidated debt is nominally a $2\frac{1}{2}$ investment; but has been kept at about $68\frac{1}{2}$ during the close of the stock exchange since the beginning of August, which is equal to a yield of about £3, 13*s*, 0*d* per cent. The confidence shown in the bank of England, and the ready acceptance of the treasury war bills, have been the result, in part at all events, of a management of public finance on principles suggested already, the paying of current expenditure as we go, the reluctance to trade and to act beyond our means, by resorts to loans. Of course, the great recent prosperity in commercial matters is a very important factor in the confidence which is felt. There will not be any difficulty in raising loans. Rather will it be necessary to be firm in requiring a portion of the cost of the war from those who wage it—by taxation.

Differences of opinion, even among those who agree on financing methods, are easily conceivable when the amount to be raised by taxes is in question. We have seen that the British government has spent £100 millions in three months on war, and probably much more. How much might be necessary for a year? Shall we say £500 millions? It has been computed that Germany and Russia are spending quite £4 millions daily, France not less than £3 millions, and Great Britain, say, £14 millions! Then there are Austria and Hungary, Servia, and Belgium, and now the impecunious Turk insists on entering upon the gamble of war. No fixed proportion of the cost can, therefore, be required from present taxpayers, and consequently we are reduced to the necessity of deciding upon some sum—in

Britain's case, say, £30 millions. If we assume that the war will cost Great Britain at least £650 millions (and that according to some is a very low estimate) that sum, at an average of £3½ per cent will require about £23 millions a year to meet interest, and £7 millions should go toward the sinking fund. Looking toward our needs internally, and though our annual expenditure is at a very high figure, apart from war, yet I do not think that less than £30 millions should be raised by means of war taxes annually. The rest of the cost need be funded in some form, but at present it would not be of much service to discuss what the form of the public securities created should be. Considering the financial confidence and the possibility that the war will come to an early end, it is probable that Britain will secure the money required at an average of 3½ per cent. But now of the way to raise the sum required by taxation!

The account given in this paper of Britain's present financial position, and particularly of recent movements in taxation, with their results, will have prepared the reader for the suggestion to be made on the subject of war taxes. I say war taxes, for it would seem to be necessary, at least for some years, to maintain the taxation for the cost of this war in a separate section of the public accounts. However good the cause, and triumphant the issue, enthusiasm is evanescent, and paying taxes for a just war is a passion rather than a dictate of love. Later on, no doubt, it will be necessary to unite the annual burden in one charge; but experience shows that many will bear the brunt of hailing an enemy and even of fighting him, but paying the bill is *caviare* to the natural man.

If the principles on which the budgets of 1909 and 1910, and later years, have been justified by experience, as they were accepted as just, then the star to guide a Chancellor of the Exchequer in financing this war is in the sky already. Not much should be got from taxes on commodities, and from taxes on necessaries like tea, sugar, and dried fruits, none at all. The only commodities from which some revenue might be got, *viz.*, beer, and spirits, and tobacco, are taxed severely already. Beer in 1913 contributed £13.2 millions, spirits £22.6 and excise licenses £5.5, or a contribution of £41.3 millions from drinks. To this we may add £17.2 millions from tobacco. Nearly £60 millions from these common luxuries, with some £13 millions more from articles of consumption, makes the sum thus raised from forty-six millions of people, mostly poor, a heavy sum, without

adding the weight of the general argument against this form of taxation. Look to table B, and to other sources of revenue beside customs and excise, and it will be seen that death duties and income tax will be called upon to produce the special war revenue required. To invent taxes, acceptable and just taxes, is one of the statesman's greatest difficulties: and as death duties and an income tax are effective, and also just in principle, why should we multiply the forms in which the same man shall be taxed? Death duties are levied when a new possessor comes into acknowledged wealth. An income tax levied carefully draws on a realized income; it is not a stroke in the dark, as a duty, say, on a cup of coffee is, for the incidence of the tax is really unknown. If, as is estimated in 1914, an income tax, with the super-tax, will produce about £54 millions, an extra 7*s* in £ for war, making 1*s* 10*d* in the £ in all, will produce £25 millions more. The remaining £5 millions might be got from realized wealth by a further screw of the death duty, a tax which is yielding well, and justifies itself in several ways. Let me say that I anticipate a strong objection to these suggestions from well known and tried individuals and parties, but am equally sure that they are well founded in principle, and proposed with a single eye to the justice of the matter.

But I want to repeat another suggestion, which will also serve to turn the edge of the objection to such measures. In imposing a special addition to the income tax, opportunity should be taken to improve the assessment and collection, by collecting directly from the taxpayer after a declaration of income, and after a *direct* graduation of the tax from the lowest point upwards, instead of the present cumbrous way of securing a graduation. Of this improvement I am not hopeful at this moment, as the treasury will plead the magnitude of other more pressing tasks. That in addition opportunity should be taken to reduce the amount when an income tax becomes chargeable. It is now £160 and upwards. As it is not wise nor advisable, nor just, to add to the indirect taxes, and even advisable to do away with taxes on articles of food consumption, we should reduce the sum assessable to income tax to a £100 at least, and ultimately to £80. That would enable everybody, except the very poor, to pay according to income, and avoid the common and effective grumble from a millionaire, that some were escaping all taxes. Of course, if it were resolved after all, to mulct users of strong drinks and tobacco in some amount of the war cost, the sums to be

drawn from death duties and income tax would be reduced in proportion.

Is it not obvious that a war budget on these lines would require courage and firmness in the proposer? Experience tells us that they would be necessary, very decidedly; but the present government has not lacked such courage, and on this matter it can appeal to the courage and patriotism which sustained the war. Again, if Pitt, and those of his day, could finance the Napoleonic wars until stock was issued at £46 at least, surely the resources of Britain are such now that it can bear a 1*s* 9*d* or 1*s* 10*d* income tax for a time! We have not yet resisted, even to a denial of luxuries.

On November 17, Mr. Lloyd George, as Chancellor of the Exchequer, introduced a special war budget into the House of Commons. The following are the governing figures, in brief, of his statement; but the foundation figures of his earlier budget will be found slightly altered. Deducting a loss of £11,350,000 on the prospective revenue to the end of March next, caused by the war, he estimates now that that revenue will reach £195,796,000. The expenditure with a slight deduction, will be £206,924,000, but to March, the war expenditure is estimated to reach £328,443,000, thus making a total expenditure for this financial year of £535,367,000—and so showing a deficiency of £339,571,000. Two cautions in reading these figures: (1) the sums for the cost of the war throughout are in addition to the expenditure sanctioned in the ordinary budget of May and June last; and (2) the large sums now estimated for the war are only from August last to the end of March. The estimate for the war for a *year* is £450 millions; but even that is only an estimate. (At this point the Chancellor expresses a hope that at the end of the war there would be "a reduction of armaments." On war, no doubt, but let the psychologist turn prophet and say whether that will be realized on ordinary expenditure.)

The Chancellor of the Exchequer, as anticipated, announced that this situation will be met, in part by added taxation, and in part by a loan amounting to £350 millions, which was very largely subscribed in three days. The *added* taxation proposed (and evidently to be adopted) is *income tax* (and *super-tax* on incomes over £2,500) to be *doubled*, i.e., on earned 1*s* 6*d*, and on unearned incomes 2*s* 6*d* in the £; but for the four months from December 1 to March 31 only *one-third* will be charged. (Within

these limits there will be much graduation.) In a full year this is estimated to add to revenue (£38$\frac{3}{4}$ income and £6 millions super-tax), £44,750,000. Next, failing a better charge on wages and small incomes, too *indirect* additions, *viz.*, 17*s* 3*d* more on each barrel (36 gallons) of *beer*, making 25*s* in all, to enable a beer-seller to charge one halfpenny more for every half pint, and so leave a little profit *also*. (This is much opposed by the beer trade.) That, after a small allowance on licenses, on account of shorter hours of sale, will produce £17,050,000. Then tea is charged 3*s* per pound more, making 8*s*, which it is hoped will bring in an additional £3,200,000. These measures will bring in £15 millions extra to March next, and £65 milions more in a whole year.

The loan for £350 millions issued on November 18 was at 95 per cent, carrying interest at 3$\frac{1}{2}$ per cent, redeemable at par in 1925 or 1928, at the option of the treasury. It is thus equal to a trifle over 4 per cent. Firm offers for more than £100 millions had been received before it was issued, and afterwards there was no doubt of a great success, as applications poured in for £100 or multiples of that amount. The only note on the government's proposals possible or desirable here is that though paying up is unpleasant, and there is evidence of difference of opinion on taxation, such is the united and conciliatory spirit of Parliament and the country in face of the war, that the war budget will be passed in a few days, much as it is. But of course, on the whole financial situation much will be said as the war develops, and as the financial year comes to a close with March.